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S E C R E T SECTION 01 OF 03 BAGHDAD 000223

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STATE FOR NEA-I, EEB

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TAGS: [EPET](#) [ECON](#) [ENRG](#) [PREL](#) [IZ](#)  
SUBJECT: HYDROCARBON FRAMEWORK LEGISLATION STILL STALLED

REF: REF: A) BAGHDAD 87 B) 2007 BAGHDAD 4090

Classified By: Acting Economic Minister Todd Schwartz for Reasons 1.4 (b) and (d)

11. (SBU) SUMMARY: Under Secretary Jeffery lobbied a series of GOI officials January 14-18 for speedier passage of the hydrocarbon framework legislation, but technical and political issues abound, and the law remains entangled among other legislative priorities (reftels). END SUMMARY.

DPM Salih: No political will, but maybe a process  
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12. (S) In a frank meeting on January 15 with U/S Jeffery and Ambassador Crocker, Deputy Prime Minister Barham Salih said he was told privately by senior Kurdish officials during a trip to Irbil on January 14 that "there is no return to the (draft hydrocarbons) February text." While Dr. Barham himself said he stood behind the February draft, he believes the legislation is not worth pursuing as long as there is no political will. U/S Jeffery pointed out that this take is very different from what President Jalal Talabani had presented on the status of the hydrocarbons legislation the morning of January 15 in a meeting with Secretary Rice. Moreover, Ambassador Crocker noted that KRG Prime Minister Masoud Barzani also was present and said nothing to contradict Talabani's assessment. (COMMENT: Barzani's understanding may have been hampered by the lack of translators during the Executive Council meeting. END COMMENT). Dr. Barham said he believed Talabani supports the February text, but there are still other powerful players who do not want the hydrocarbons legislation. The two driving forces against passing a hydrocarbons law, according to Dr. Barham, are Oil Minister Shahrastani's determination not to have his power limited, and the Kurds not wanting to cooperate on certain issues with the central Baghdad authority.

13. (S) U/S Jeffery noted that even the February text means different things to different people, which suggests the need for a vetted political process for developing the hydrocarbons legislation. For example, the Executive Council could be used as a venue in which a draft could be approved by all major political parties and then submitted to the CoR. The key would be to establish a process with named Iraqi interlocutors. Dr. Barham agreed that setting up a process with named interlocutors is a good idea, but also reiterated his concerns that the lack of political will is paramount. He telephoned the U/S the next day, January 16, and suggested that there was an agreement by the Executive Council to have the U/S mediate discussions between PM advisor Thamer Ghadban and KRG Minister for Natural Resources Ashti Hawrami, in Irbil. Subsequent conversations with Iraqi officials did not

substantiate that and revealed the lingering confusion and/or lack of communication within the GOI on the hydrocarbon law.

VP Hashimi: Constitution First

14. (SBU) VP Hashimi on January 16 returned to his theme that the constitution is the stumbling block over the hydrocarbon legislation; no one has much of a dispute about the contracting provisions. He argued that the constitution does not define regional versus central authority, and that needs to be sorted out. He said the new KRG contracts with IOCs need to be addressed, along with the basic issue of mutual mistrust. Unless everyone acknowledges that their interests will be served by the central government, the law will not go forward. Hashimi complained that USG priorities do not match GOI priorities, and argued that the USG should push first for constitutional reform.

MoO Shahrستاني: Not a good time and MoO has other plans

15. (SBU) Minister of Oil Hussein Shahrستاني reported to U/S Jeffery on January 17 that the Ministry plans to increase crude oil production to 2.9 to 3.0 mmbd by the end of the year, primarily by entering into technical service agreements with selected international oil companies (IOCs) under the authority of existing Iraqi law, which grants broad authority to the Minister. He said his Director General for Licensing, Natic al Bayati, has spoken with the major IOCs (Shell, BP, Exxon-Mobil, Total and Chevron) about "bridging contracts" to work on large producing fields in need of rehabilitation and work-over. Initially, the IOCs would work outside Iraq on planning and procurement, with Iraqi Ministry personnel performing the fieldwork. Each contract would be no more than 2 years in duration and be less than USD 50 million

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each. If successful, Shahrستاني projects production will increase by about 500,000 b/d. Shahrستاني envisions a phased transition from the free work being provided now by the IOCs to full commercial relations.

16. (SBU) Bayati said the licensing of technical service contracts is taking longer than expected because the IOCs want to be paid in kind. He explained that the MoO wants to avoid conflict with the requirements of the Development Fund for Iraq (DFI). The Minister has tasked SOMO, the State Organization for Marketing Oil, to work out a system with the Finance Ministry to pay the contract fees in offsets that the companies would have to pay for crude oil exports, e.g., the companies would buy 100 barrels but only have to pay for 90 to cover the contract fees. Shahrستاني asked for USG intervention with the DFI to permit such in-kind arrangements.

17. (SBU) Shahrستاني reported the IOCs were initially hesitant to enter into service contracts before Iraq passes its national hydrocarbon framework law, but are now looking long term to establishing a track record with the Ministry in anticipation of future opportunities. Shahrستاني said that in addition to the bridging contracts, the Ministry is concurrently working on prequalification a bid process for "full-fledged investment contracts," with company risk. He said that he would announce the first round in May and pledged to follow the draft hydrocarbon law requirements for awarding contracts in a transparent manner (in contrast, he said, to the obscure way the Kurdish Region awarded its PSAs), except the Cabinet will approve them instead of the yet-to-be established Federal Oil & Gas Council. He will include the Akkas gas field in the first round for both economic reasons and to build political relations with Europe. Bayati added that the MoO remains interested in training on licensing procedures.

18. (SBU) On the hydrocarbon legislation, Shahrستاني said the new KRG contracts have united 140 members of the Council of Representatives against the law. Until the political situation settles, the law will not go forward. Once it

does, he thinks the political leaders will need to return to the February 2007 version, plus annexes, without any more changes to the text. The political leaders could also work on the July 2007 draft, but the GOI will not accept any more of the KRG demands for changes. Either way, the new KRG contracts are unacceptable. Either version will face the same hostile climate in the CoR, he said. He added that PM Maliki is not focused on the details, but there are a lot of political developments that are not conducive to resolution because so many issues are intermingled. The PM is in no mood to move on the law until he sees movement on the other KRG issues (e.g., on the disputed territories).

NSA Rubaie: Process needed  
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¶9. (SBU) National Security Advisor Muwafiq Rubaie zeroed in on the question of mistrust over the hydrocarbon law, but said that the new KRG contracts present no real stumbling block. He said the solution is to go back to the February version of the law, upon which everyone agreed, and if it is taken to the Executive Council and voted upon favorably, it can then go to the political leaders. The catch is that the February version lacked the field annexes, he explained. He suggested that representatives from the KDP, PUK, along with Rosch Shaways, Shahrastani and Hashimi need to meet and come up with a final text. Rubaie said that if the USG became more assertive on this issue, and directed its pressure, it could be resolved.

¶10. (SBU) Rubaie mused for a while about how mistrust can be dispelled via federalism (he released an op/ed on federalism the next day (Jan. 18) in the Washington Post), asked for advice on how to approach the international community at Davos' World Economic Forum, pushed for funds for vocational training to get youth off the streets, and asked about the economic component of the Strategic Partnership Agreement (adding he does not like the Status of Forces Agreement (SOFA) name).

FM Zebari: Looking for a Process  
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¶11. (C) Foreign Minister Hoshiyar Zebari told U/S Jeffery January 17 that the government needs to move faster on the hydrocarbon legislation, but the shifting positions of the parties has bred a great deal of mistrust. Nevertheless, he added, President Talabani had informed the Council of Ministers the day before that there is an agreement on the

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February text to be sent to the CoR for debate. He said he had told Oil Minister Shahrastani that relations were poisoned and he should stop negotiating through advisors. He observed that to date, Prime Minister Maliki and Shahrastani have been playing games, with Shahrastani saying he speaks for the PM and the PM saying the oil law is Shahrastani's responsibility. To finalize the text, Zebari suggested that the Executive Council could establish a negotiating team, perhaps under the lead of VPs Hashimi and Mahdi, to advance the process.

KRG Minister Dr. Ashti Hawrami: 100 percent committed  
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¶12. (C) In a telephone conference with the U/S on January 18, KRG Minister of Natural Resources and lead KRG negotiator on the oil law, Dr. Ashti Hawrami, provided readout from his December 2007 visit to Baghdad. Despite KRG intentions to engage the GOI, the KRG delegation had had no formal meetings on the hydrocarbon law. On December 17, Ashti did have an informal session with Thamiir Ghadban, and then a one-on-one with PM Maliki. Ashti had reminded the PM of the irony that precisely one year earlier they had met on exactly the same topic. Regarding the way forward, Ashti had suggested to the PM that Ashti and Ghadban should be authorized to continue negotiations, perhaps with the aid of legal experts and members of the CoR Oil & Gas Committee. Once agreement is reached on each and every paragraph, the CoM could resubmit

the text to the CoR. Maliki had asked if Shahrستاني should be involved. Ashti had said no (and continues to assert privately that Shahrستاني should be fired), but Maliki had said it would be difficult to exclude him.

¶13. (SBU) Ashti complained to U/S Jeffery that no one in the GOI is in a hurry about anything (some wish to deny any success to the Maliki government), and few really understand why an oil law is needed. Ashti said he was willing to spend time in Baghdad educating people about why Iraq needs a new oil law: for additional revenue to rebuild the country and to ensure Iraq does not remain divided. The KRG, he added, is 100 percent committed to the hydrocarbon legislation.

¶14. (SBU) On the composition of a negotiating committee, Ashti said Ghadban should be involved, although at the moment he thinks the GOI has given him no authority. Ashti observed that Ghadban is inclined to retain central control like Shahrستاني, but Ashti can work with him. Ashti had thought that to follow-up on his talk in December, that Maliki would issue an order to set up a negotiating committee, but he has heard nothing at all from the GOI since. Ashti acknowledged that to be fair, Maliki did become ill in January and has many other issues to consider. Nevertheless, he concluded, the KRG does not want to let another year pass without any action on the oil law, it absolutely needs a revenue management law, and is committed to pressing as far as possible. Ashti urged the U/S to convince Maliki that the hydrocarbon framework law is a priority for Iraq. The U/S, in turn, encouraged Ashti to return to Baghdad to help focus officials on the issue.

COMMENT:

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¶15. (C) Despite indications (ref A) from President Talabani on January 9 that KRG Prime Minister Barzani had agreed to return to the February 2007 text of the Hydrocarbon Framework law, the meetings with GOI officials over the course of last week revealed that that agreement has not yet been communicated to the GOI, and that there is still some confusion over the text, which in all probability will require a negotiating committee to work through. The scenario advanced separately both by NSA Rubaie and FM Zebari, to have the newly empowered Executive Council designate a negotiating committee, appears to be a logical next step, but will require endorsement and action from PM Maliki. Our sense is that the GOI has stiffened its position over the power of the central government in the text, in light of the popular reaction against the new KRG contracts and public sensitivities about ownership of Iraqi oil, and have doubts that the political conditions are right to move forward quickly on the law. Nevertheless, we will continue to press the Iraqis to create a process to resolve their differences on the hydrocarbon framework and revenue sharing legislation.

¶16. (U) This cable was cleared by U/S Jeffery prior to transmission.

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